

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: June 17, 2008
POSITION: Oppose
SPONSOR: Superintendent of Public Instruction, Preschool
California, and Children Now

BILL NUMBER: AB 2759
AUTHOR: D. Jones

BILL SUMMARY: California State Preschool Program Act

This bill seeks to consolidate current State Preschool, Prekindergarten and Family Literacy (PKFL), and General Child Care and Development programs serving three- and four-year-old children into the California State Preschool Program (CSP). The bill would define the CSP as part-day and full-day educational programs for eligible low-income or otherwise disadvantaged children, and limit part-day enrollment of children from families above the income eligibility threshold to ten percent. The Superintendent of Public Instruction (SPI) would be authorized to transfer funds appropriated on or after January 1, 2009 between general child care and development programs and the CSP. The bill would become effective on July 1, 2009 and is contingent upon the enactment of SB 1629 (Steinberg), which would establish a commission to create a state Early Learning Quality Improvement System.

FISCAL SUMMARY

Several provisions of this bill will drive additional Proposition 98 cost pressures or, in the absence of funding, would result in a decrease in the capacity to serve children. While current data is insufficient to quantify these affects, we believe it would be in the low tens of millions of dollars, annually. Applicable provisions include: (1) increasing the reimbursement rate for three- and four-year-olds who are currently served in general child care programs for less than four hours per day by approximately 12 percent; (2) making any CSP program located in the attendance area of elementary schools ranked in deciles 1 to 3 of the most recent base Academic Performance Index (API) eligible for the \$2,500 per class grant currently provided for participants in PKFL, and (3) eliminating family fee requirements for part-time three- and four- year-olds currently receiving services in general child care. We also estimate the State Department of Education (SDE) would incur new General Fund costs of at least \$200,000 for staffing and analysis to monitor contracts, category transfers, and ensure compliance with the bill's provisions.

COMMENTS

The Department of Finance (Finance) is opposed to this bill for the following reasons:

- This bill would result in additional Proposition 98 General Fund cost pressure in the tens of millions, annually, and significant new state operations General Fund costs at a time when a structural budget deficit exists.
- This bill includes no requirement to prioritize funds, nor specify a minimum level of enrollment, for preschool age children. Thus, this bill could result in fewer preschool age children being served.
- This bill conflicts with the Governor's Prekindergarten and Family Literacy Program initiative to target preschool services to children residing in the attendance area of an elementary school in deciles 1 to 3 of the API, and who would attend kindergarten in the following year. The bill also would eliminate the authorization to provide up to 20 percent of preschool slots to children whose families are above the income eligibility threshold. This is a policy concern for the Administration as this provision was intended to maximize access to preschool for children in low-income areas.
- Authorizing the SPI to transfer funds between programs circumvents the category transfer process under Control Section 26 of the annual budget act. Finance is concerned that this would hinder the state's ability to target slots for preschool in the future, and could create substantial cost pressure to provide additional funding for either preschool or general child care programs.

ANALYSIS

A. Programmatic Analysis

Analyst/Principal (0382) S. Swan	Date	Program Budget Manager Jeannie Oropeza	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

BILL ANALYSIS	Form DF-43 (Rev 03/95 Buff)
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This bill seeks to consolidate current State Preschool, Prekindergarten and Family Literacy (PKFL), and General Child Care and Development programs serving three- and four-year-old children into the California State Preschool Program (CSP). Major provisions of the bill include the following:

- Defines the CSP as part-day and full-day educational programs for eligible low-income or otherwise disadvantaged three- and four-year-old children.
- Specifies that three- and four-year-old children qualify for the part-day program if the family meets at least one of the following eligibility criteria: (1) the family is a current aid recipient; (2) the family is income eligible; (3) the family is homeless; or (4) the children are receiving protective services or are at risk of abuse, neglect, or exploitation. To qualify for a full-day program, the family must also demonstrate a need for child care services. (These criteria are consistent with existing law.)
- Limits part-day enrollment of children from families above the income eligibility threshold to ten percent.
- Eliminates provisions related to the allocation of the \$50 million appropriated for PKFL, including the authorization to provide up to 20 percent of preschool slots to children who are from families above the income eligibility threshold.
- Eliminates the requirement that at least 50 percent of the children enrolled at a preschool site be four-year-olds if the program is operating with funding that was initially allocated in a prior fiscal year.
- Authorizes the SPI to transfer funds appropriated on or after January 1, 2009 between general (designated as "center") child care and development programs and the CSP. The bill would require the SDE to annually monitor funding utilized in general child care programs for infants and toddlers and hours of service provided in the CSP. The SDE would be required to annually report to Finance and the Legislature a statewide summary of the funding utilized for infants and toddlers, and the number of preschool age children receiving part-time and full-time development services.
- Makes any CSP program located in the attendance area of elementary schools ranked in deciles 1 to 3 of the most recent base API eligible for the \$2,500 per class grant for family literacy and support activities currently provided for participants in PKFL, up to \$5 million contingent on an appropriation in the annual budget act or other statute. The bill would prioritize the distribution of the per-class grant if funds are insufficient to fund all participating classes. First priority would be given to programs that initially received PKFL funding, followed by CSP programs located in the attendance area of elementary schools in deciles 1, 2, and 3. Programs receiving the per-class grant would continue to receive those funds for one year after the elementary school reaches decile 4.
- Requires that part-day services be reimbursed on a per capita basis, as determined by the SPI, and that full-day services be reimbursed at no more than the Standard Reimbursement Rate (SRR) with adjustment factors.
- Increases the reimbursement rate for three- and four-year-olds who are currently served in general child care programs for less than four hours per day from 55 percent to approximately 62 percent of the SRR.
- Requires that fees be assessed for families with children in the full-day preschool program. Fees would not be assessed for families whose children are enrolled in the part-day preschool program.
- Specifies that the bill would become effective on July 1, 2009 and is contingent upon the enactment of SB 1629 (Steinberg), which would establish a commission to create a state Early Learning Quality Improvement System.

Under current law, the State Preschool Program offers comprehensive developmental programs for low-income children three to five years of age. State Preschool Program providers may supplement preschool with funding from the General Child Care and Development Program to offer full-day programs (wrap-around care). Regulations for the State Preschool Program allow up to 10 percent of enrolled children to exceed the income threshold by up to 15 percent if all eligible children are served.

AB 172 (Chapter 211, Statutes of 2006) created the PKFL by expanding the State Preschool Program for children who would attend kindergarten in the subsequent academic year and who reside within an attendance area of elementary school sites that are ranked in deciles 1 to 3 of the 2005 Academic Performance Index, with preference given to underserved areas. Participating programs are authorized to provide up to 20 percent of preschool slots to children in families above the income eligibility threshold, if the number of contracted slots exceeds the number of eligible children. A full day of services may also be provided for participating children. The PKFL enhanced the parent education component of the State Preschool Program to enable parents to participate in interactive reading activities with their children.

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BILL ANALYSIS/ENROLLED BILL REPORT--(CONTINUED)

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The General Child Care and Development Program provides age and developmentally appropriate activities for children from 0-12 years of age. These programs must also provide parental education and referrals to appropriate social services agencies. Families must meet specified eligibility criteria and demonstrate a need for child care services. Families, except for those with the lowest income, are also assessed fees based upon a sliding scale that varies with income and family size.

While parents are exempt from paying fees for part-day preschool, those who are receiving wrap-around care are assessed fees for the portion of the day that exceeds part-day care. Finance notes that parents who are currently paying fees under the General Child Care and Development Program for three- and four-year old children would not pay fees for part-day care under the CSP.

Finance also notes that the bill does not explicitly limit enrollment of three- and four-year olds in general child care and development programs. While the SDE expects that eligible children would enroll in the CSP, it is possible that both programs would continue to enroll three- and four-year-olds.

B. Fiscal Analysis

This bill would increase the reimbursement rate for three- and four-year-olds who are currently served in general child care programs for less than four hours per day by approximately 12 percent. According to the Department of Education, this is intended to equalize the reimbursement rate currently provided for these children with that provided under the State Preschool Program (\$21.22 in 2007-08). While the percentage of children who are currently served in part-day general child care and development programs is unknown, this could drive additional Proposition 98 General Fund costs in the low tens of millions of dollars annually.

In addition, making any CSP program located in the attendance area of elementary schools ranked in deciles 1 to 3 of the most recent base API eligible for the \$2,500 per class grant currently provided for participants in PKFL would result in a cost pressure, potentially in the millions of dollars, to fund all preschool classes. The 2007 Budget Act provided \$5 million for the purpose of augmenting PKFL programs only. Further, using the most recent base API as proposed in this bill, rather than the 2005 API for the PKFL program, would create additional cohorts of programs that would be eligible for this grant. Finally, the bill's provision that funding be continued for one year after an elementary school reaches decile 4 would create an additional unknown cost pressure.

This bill, by eliminating family fee requirements for part-time three- and four-year-olds currently receiving services in general child care, would result in additional Proposition 98 General Fund cost pressure because fee revenue collected augments provider's state contract funding. Thus, this bill would diminish resources for services. The magnitude of this affect is unknown, but could be several millions of dollars, statewide.

Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)							
	LA	(Dollars in Thousands)							
	CO	PROP							Fund
	RV	98	FC	2008-2009	FC	2009-2010	FC	2010-2011	Code
6110/Dept of Educ	LA	Yes		-----	See Fiscal Analysis	-----			0001